

A scenic view of a golf course. In the background, a large clubhouse with a dark roof and white trim sits atop a grassy hill. The middle ground is filled with rolling green hills, sand traps, and several tall pine trees. In the foreground, a calm body of water reflects the sky and the surrounding landscape.

The Retirement Systems of Alabama

Component Units of the State of Alabama *Comprehensive Annual Financial Report*

For the Fiscal Year Ended September 20, 2008

The Retirement Systems of Alabama

Component Units of the State of Alabama

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2008

The Retirement Systems of Alabama
Consists of:

TEACHERS' RETIREMENT SYSTEM of ALABAMA
EMPLOYEES' RETIREMENT SYSTEM of ALABAMA
JUDICIAL RETIREMENT FUND

(Each a Component Unit of The State of Alabama)

David G. Bronner, Ph.D., J.D., Chief Executive Officer

201 South Union Street • P. O. Box 302150 • Montgomery, Alabama 36130-2150
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RETIREMENT SYSTEMS OF ALABAMA

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INTRODUCTORY SECTION



Retirement Systems of Alabama



Teachers'

Paul R. Hubbert, Chair
Sarah Swindle, Vice Chair

David G. Bronner, CEO
Marcus H. Reynolds, Jr., Deputy

Employees'

State State Police Public Judicial
Bob Riley, Chair
John H. Wilkerson, Jr., Vice Chair

January 26, 2009

The Boards of Control
Teachers' Retirement System of Alabama
Employees' Retirement System of Alabama
201 South Union Street
Montgomery, AL 36130

Dear Board Members:

It is with great pleasure that we submit the Comprehensive Annual Financial Report (CAFR) of the Retirement Systems of Alabama (RSA or Systems) for the fiscal year ended September 30, 2008. The Retirement Systems of Alabama includes the Teachers' Retirement System of Alabama (TRS), the Employees' Retirement System of Alabama (ERS), and the Judicial Retirement Fund (JRF). Each system is considered a component unit of the State of Alabama for financial reporting purposes, and, as such, the financial statements contained in this report are also included in the State of Alabama Comprehensive Annual Financial Report.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Systems. Sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules, and statistical tables. We trust that you and the members of the Systems will find this report helpful in understanding your retirement system.

Administration and Plan History

The TRS, ERS, and JRF operate under common management and are collectively referred to as the Retirement Systems of Alabama (RSA). In addition to executive management, the TRS, ERS, and JRF share investment management, accounting, and information system services, the costs of which are allocated to the funds on an equitable basis. The TRS was established under the provisions of Act 419 of the Legislature of 1939 to provide benefits to qualified persons employed by State-supported educational institutions. The ERS was established under the provisions of Act 515 of the Legislature of 1945 to provide benefits to State employees, State police, and, on an elective basis, to qualified persons of cities, towns, and quasi-public organizations. The JRF was established under the provisions of Act 1163 of the Legislature of 1973 to provide benefits to qualified judges and justices. Additional information regarding the administration and history of each system, including laws establishing each plan and services provided, can be found in the *Financial Section - Notes to the Financial Statements* portion of this report.

Financial Information

Accounting Method - As required by Generally Accepted Accounting Principles (GAAP), the financial information of the TRS, ERS, and JRF is reported on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the corresponding liability is incurred. Investments are reported at fair value.

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Web site: www.rsa-al.gov

Internal Controls - The management of the RSA is responsible for maintaining the system of internal controls (system). The system provides management with reasonable, but not absolute, assurance regarding the safeguarding of assets against loss or unauthorized disposition and the reliability of the financial records from which the financial reports are prepared. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefits.

Summary Comparative Data – Management’s Discussion and Analysis (MD&A) includes a narrative introduction, an overview of the financial statements, including the notes, and required supplementary information, and summary comparative data for fiscal years 2008 and 2007. Also, an analysis of significant variances between fiscal years 2008 and 2007 is provided in the MD&A.

Plan Financial Condition

The funding objective of the RSA pension trust funds is to meet long-term benefit requirements through contributions, which remain relatively level as a percent of member payroll over time, and through investment earnings. Historical information concerning funding progress is presented in the *Required Supplementary Information* - “Schedule of Funding Progress” on page 41.

At the date of the latest actuarial valuations (9/30/07), the number of participants in the TRS, ERS, and JRF was 227,498, 133,397, and 696, respectively. The TRS’s, ERS’s, and JRF’s last valuations were performed as of September 30, 2007. The TRS’s funded percentage decreased from 82.8% at September 30, 2006 to 79.5% at September 30, 2007. The ERS’s funded percentage decreased from 81.1% at September 30, 2006 to 79.0% at September 30, 2007. The JRF’s funded percentage increased from 86.4% at September 30, 2006 to 83.9% at September 30, 2007.

Investment Activity

Total investments for the RSA decreased in fiscal year 2008, primarily due to decreases in the fair value of investments. Investment balances for the TRS, ERS, and JRF at September 30, 2008 were \$17.8 billion, \$8.5 billion and \$219.1 million, respectively, compared to investment balances for the TRS, ERS, and JRF at September 30, 2007 of \$21.6 billion, \$10.3 billion, and \$268.2 million, respectively. Total pension fund investments managed by the RSA decreased from \$32.1 billion at September 30, 2007 to \$26.4 billion at September 30, 2008, a 17.8% decrease.

Interest and dividend income for the TRS, ERS, and JRF for the fiscal year ended September 30, 2008 was \$705.6 million, \$339.6 million, and \$8.2 million, respectively, compared to \$719.9 million, \$347.3 million, and \$8.5 million, respectively, for the fiscal year ended September 30, 2007. The decrease in fair value of investments for the TRS, ERS, and JRF for the fiscal year ended September 30, 2008 was \$4.1 billion, \$1.9 billion and \$46.9 million, respectively, compared to the increase in fair value of investments of \$2.6 billion, \$1.2 billion, and \$26.0 million, respectively, for the fiscal year ended September 30, 2007. Additional information concerning investments, including investment policies and procedures, are located in the Investment Section.

The staff will continue to purchase and develop investments that will facilitate the mission of the RSA and serve the interests of our members by preserving the excellent benefits and soundness of the RSA while providing these at the least expense to the State of Alabama and all Alabama taxpayers. With the continued cooperative efforts of the Boards of Control, the RSA staff, and the Legislature, this goal will be achieved.

Management’s Discussion and Analysis

GASB Statement No. 34 requires that management provide a narrative introduction, overview, and analysis to accompany the Financial Statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors’ Report.

RETIREMENT SYSTEMS OF ALABAMA

Introductory Section

Letter of Transmittal (Continued)

Legislation Enacted During Fiscal-Year 2008

Act 2008-555 authorized a one-time lump-sum payment to certain retirees and beneficiaries of the Employees' Retirement System (ERS) whose effective date of retirement for purposes of receiving benefits was prior to October 1, 2008, and who were receiving a monthly allowance from the ERS prior to October 1, 2008. The payment was twelve dollars for each year of service.

Professional Services

Professional consultants are appointed by the Boards of Control to perform professional services that are essential to the effective operation of the TRS, ERS, and JRF. The certification letters from the independent actuary are included in this report. The professional consultants appointed by the Boards of Control are listed on page 9 of this report.

Financial Statement Audit

Carr, Riggs and Ingram, LLC, Certified Public Accountants, issued an unqualified ("clean") opinion on the RSA's financial statements for the fiscal year ended September 30, 2008. The independent auditors' report is located at the front of the financial section of this report.

Highlights and Initiatives

The Renaissance Montgomery Hotel and Spa in downtown Montgomery opened its doors in March. This project includes a 346 room hotel, a restaurant and bar, a European-style spa, a new performing arts theater, an upgrade and expansion of the Convention Center, and a 600-car parking deck. The new RSA Headquarters building was also completed during the fiscal year. The 8-story 280,000 square foot office building houses the RSA and two other state agencies.

The staff will continue to purchase and develop investments that will facilitate the mission of the RSA. Our aim is to serve the interests of our members by preserving the excellent benefits and soundness of the Systems while providing these at the least expense to the State of Alabama and all Alabama taxpayers. With the continued cooperative efforts of the Boards of Control, the RSA staff, and the Legislature, this goal will be achieved.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement Systems of Alabama for its comprehensive annual financial report for the fiscal year ended September 30, 2007. The Certificate of Achievement is a prestigious national award, which recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

Acknowledgments

The compilation of this report reflects the combined effort of the staff under the leadership of the Boards of Control. It is intended to provide extensive and reliable information as a basis for making management decisions, determining compliance with legal provisions, and determining responsible stewardship of the funds of the TRS, ERS, and JRF.

We would like to take this opportunity to express our gratitude to the staff, the Boards of Control, the consultants, the Legislature, and to the many people who have worked so diligently through continued cooperative efforts to assure the successful operation and financial soundness of the TRS, ERS, and JRF.

Sincerely,

Diane E. Scott

Diane E. Scott, CPA
Chief Accountant & Fiscal Officer

David G. Bronner

David G. Bronner, Ph.D., J.D.
Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Retirement Systems of Alabama

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



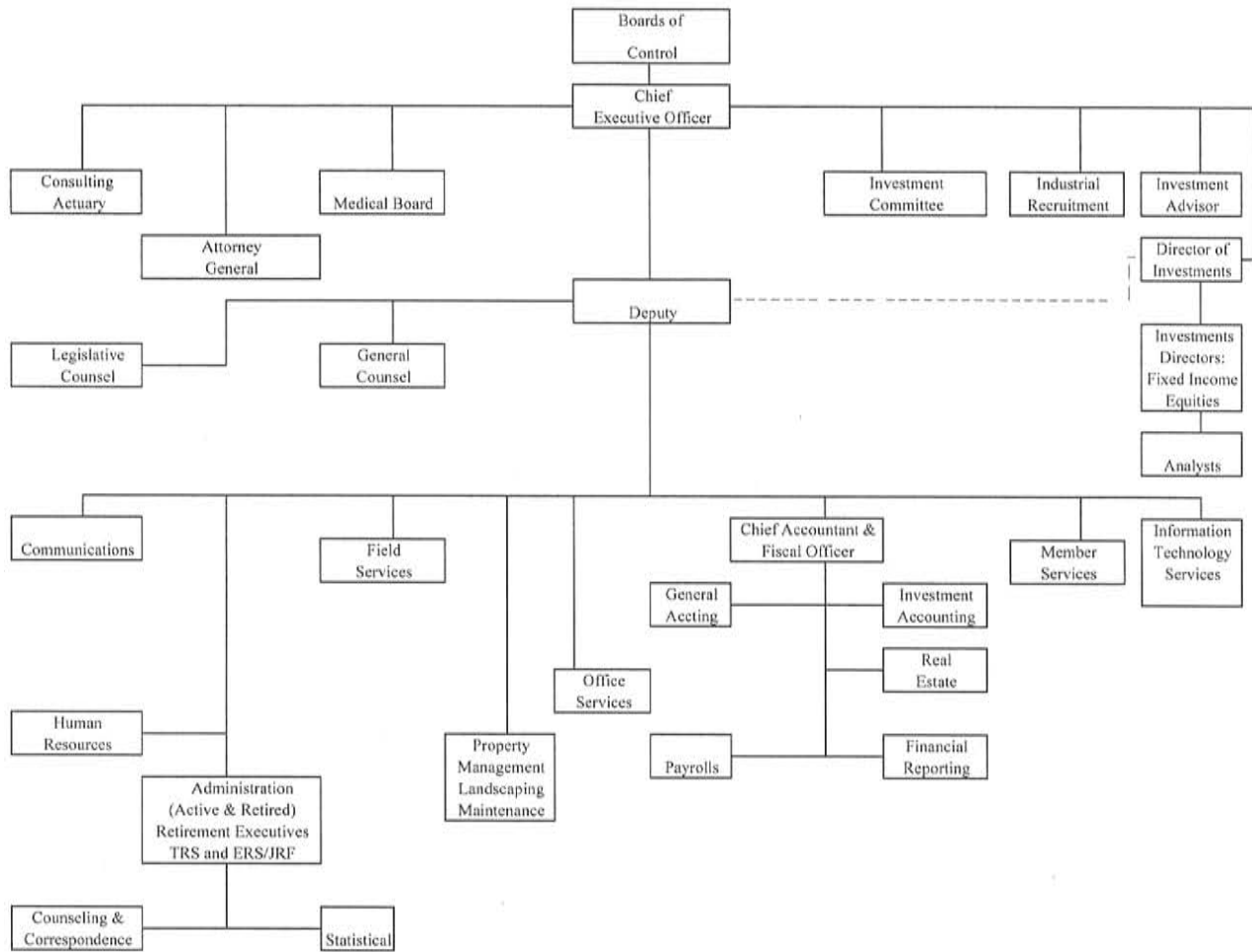
President

Executive Director

RETIREMENT SYSTEMS OF ALABAMA

Introductory Section

Organization Chart



RETIREMENT SYSTEMS OF ALABAMA

Introductory Section

Boards of Control

Teachers' Retirement System Board of Control

Ex Officio Members

Chairman, Dr. Paul R. Hubbert, Executive Secretary, AEA

Jim Main, State Finance Director

Kay Ivey, State Treasurer

Dr. Joseph Morton, State Superintendent of Education

Elected Members

Vice-Chairman, Mrs. Sarah Swindle, Retired Position

Ms. Judy Rigdon, Teacher Position

Dr. Susan Williams Brown, Postsecondary Position

Mr. John Whaley, Teacher Position

Mr. Luther P. Hallmark, Superintendent Position

Mr. Danny Stallings, Principal Position

Ms. Sallie B. Cook, Retired Position

Mr. Robert W. Smith, Jr., Support Personnel Position

Mrs. Teresa Harbison, Teacher Position

Ms. Sharon P. Saxon, Support Personnel Position

Employees' Retirement System Board of Control**

Ex Officio Members

Chairman, Bob Riley, Governor

Jim Main, State Finance Director

Kay Ivey, State Treasurer

Jackie Graham, State Personnel Director

Elected Members

Mr. Clyde Sellers, Retired Local Employee

Mrs. Ben Powell, Active Local Employee

Mr. Ronald Matthews, Active Local Employee

Ms. Mary Lou Foster, Retired State Employee

Ms. Alice Thornton, Active State Employee

Mr. Stephen C. Walkley, Active State Employee

Appointed Members

Vice-Chairman, Mr. John H. Wilkerson, Jr.

Mr. Robert H. Pruitt

Mr. Robert S. Miller

** The Employees' Retirement System Board of Control is responsible for the administration of both the Employees' Retirement System and the Judicial Retirement Fund.

RETIREMENT SYSTEMS OF ALABAMA

Introductory Section

Staff, Advisors, and Medical Board

Staff, Advisors, and Medical Board

David G. Bronner, Ph.D., J.D., Chief Executive Officer

Marcus H. Reynolds, Jr., J.D., Deputy Director

Administrative Staff

Chief Accountant and Fiscal Officer, Diane E. Scott, C.P.A.

Director of Information Technology Services, Michael T. Baker

Teachers' Retirement Executive, Donald L. Yancey, M.P.A., J.D.

Employees' & Judicial Retirement Executive, R. Donald Nelson, M.S.

Director of Member Services, Penny Wilson

Director of Field Services, Judy Utley

Legislative Counsel, Lindy J. Beale, J.D.

General Counsel, William F. Kelley, Jr., J.D.

General Counsel, William T. Stephens, J.D.

Director of Communications, Michael E. Pegues, M.A.

Investment Staff

Director of Investments, R. Marc Green, M.B.A., C.F.A.

Director of Private Placements, M. Hunter Harrell, M.B.A., J.D., C.F.A.

Assistant Director of Equities, Steven R. Lambdin, M.B.A., C.P.A., C.F.A.

Director of Fixed Income, Julie S. Barranco, M.B.A., C.F.A.

Equity Analyst, Bobby Long, M.B.A., C.F.A.

Equity Analyst, Michael McNair

Equity Analyst, G. Allan Carr Jr., M.B.A., C.F.A.

Equity Analyst, Kevin W. Gamble, M.B.A., C.F.A.

Equity Analyst, Keith Buchanan, M.B.A., C.F.A.

Equity Analyst, Adam Rogers, M.B.A., C.F.A.

Fixed Income Analyst, C. Lance Lachney, M.B.A., C.F.A.

Fixed Income Analyst, Nick Prillaman, M.B.A.

Cash Management & Operations, Nancy H. Sprayberry

Advisors

Independent Certified Public Accountants, Carr, Riggs, & Ingram, LLC

Regions Bank N.A., Mr. Brian Sullivan, Investment Consultant

State Street Bank and Trust Company, Investment Custodian

Cavanaugh Macdonald Consulting, LLC, Mr. Edward A. Macdonald

Attorney General, Mr. Troy King

Chief Examiner, Mr. Ronald L. Jones

Medical Board

Chairman, Neil Stronach, M.D.

Malcolm Brown, M.D.

Glenn Yates, M.D.

